

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Brighton</u>	County Livingston
Audit Date September 30, 2005	Opinion Date September 16, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037
Accountant Signature 			

City of Brighton, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Brighton, Michigan

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October 10, 2005

Honorable Mayor and City Council
City of Brighton, Michigan

The Annual Financial Report of the City of Brighton, Michigan for the fiscal year ended June 30, 2005 is submitted herewith. It was prepared by staff in the finance department with the assistance of the audit staff from Plante & Moran, PLLC. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association. Responsibility for the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management.

The accompanying report is the second issued by the City of Brighton in compliance with the format requirements of GASB No. 34. With the adoption of GASB No. 34, the City now includes full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operational accountability of the City. Operational accountability is the City's responsibility to report the extent to which we have met our operating objectives efficiently and effectively, using all resources available for that purpose, and whether we can continue to meet our objectives for the foreseeable future. Both the providers and users of City services want to know (1) what public services are provided today and will the City be able to maintain that same (or increased) level of services in future years without an increase in the tax rate?, (2) how much debt is outstanding and will the City be able to repay it without cutting back on the public services provided or increasing the tax rate?, and (3) how does the City compare to other cities with similar characteristics?

The information presented is accurate in all material aspects. The financial statements presented are designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

The Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City of Brighton and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The report includes all funds of the City and encompasses a full range of municipal services in the administrative, public safety, community development, and public services functions of the City.

Report Organization

The annual financial report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Brighton and to this report, by way of this transmittal letter.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here.

Financial Section/Required Supplemental Information - This section contains a comparative analysis of actual revenue and expenditures versus the original and final amended budget for the General Fund and each individual major Special Revenue Fund.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect economic and financial trends and provide data pertinent to the City's annual continuing bond disclosure requirements.

General Information

The City of Brighton is a growing city located approximately 45 miles northwest of downtown Detroit. It was incorporated as a village in 1867 and became a Home Rule City in 1928. Brighton encompasses an area of approximately 3.65 square miles, has a population of approximately 7,162, and is the central business hub for approximately 47 percent of Livingston County's approximate 181,445 population, who reside in its southeast quadrant. The City's estimated 3,426 households reflect an approximate average of 2.09 persons per household.

The City is primarily residential and commercial in nature, with residential land uses comprising 70 percent of the land area and contributing 54 percent of the total ad valorem tax base. Although commercial uses comprise only 14 percent of the City's land, they generate approximately 32 percent of the tax base. Industrial land uses occupy 16 percent of the land and contribute 5 percent to the property tax base. The remaining 9 percent of the ad valorem tax base is comprised of personal property taxes on commercial and industrial real estate.

Brighton has the quality of life of a small town, but also has the advantage of being ideally located with easy access to the metropolitan areas of Ann Arbor, Detroit, Flint, and Lansing. The City operates under the Council-Manager form of government. The mayor is chosen by the seven-member elected City Council from among its members. The City Council appoints the City Manager who is responsible for the administration of the City's activities. The City Council also appoints the City Attorney, City Planner, and City Engineer.

Major Initiatives in 2004-2005

- The City implemented its compliance with GASB Statement No. 40, the new deposit and investment disclosures found in Note 3 to the financial statements on page 35-36.
- The City issued \$5,200,000 of Capital Improvement Bonds for various capital projects, including the Public Service Garage Expansion project, the Police Facility Expansion project, the City-at-Large share of the Mill Pond Lane improvement project, and various other street, sidewalk, and utility-related projects, as well as various vehicles and equipment.
- The City added \$1,927,000 of new fixed capital assets - net of depreciation.
- The City adopted a formal debt management policy.

Accounting System and Budgetary Control

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity.

This report consists of management's representations concerning the finances of the City of Brighton. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these presentations, management of the City of Brighton has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brighton's financial statements in conformity with GAAP.

Internal controls consist of a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. We believe the City's internal controls are adequate in safeguarding the assets and provide the basis for reliability in all financial transactions.

In view of the importance of the budget as a planning and control instrument in the City, the accounting system provides the basis for appropriate budgetary control. Budget-to-actual comparisons are included in the required supplemental information found on pages 50-52 of this report. Unlike accounting, budgeting is not essentially a financial procedure; it is primarily a policy-planning process. Therefore, it is much less amenable to standardization; however, the importance of GAAP, audit standards, the credit markets' need for more complete disclosure of the City's underlying condition, and the heightened sophistication of the public and press about the importance of outcomes as well as projections, have combined to professionalize and conform budgeting terms and definitions to GAAP. As a result, common terminology, measurement, and classification are used consistently throughout the City's budget, accounting records, and financial reports.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from, any appropriation account that lacks a sufficient balance available to meet the obligation. All expenditures, except personnel costs and certain defined exceptions, are required to have an authorized purchase order.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Brighton operates.

Local Economy - The economic future of the City of Brighton is inseparably linked and interconnected with the stability and growth of businesses in the Brighton area and the economic future of southeast and south-central Michigan. Economic diversification which enhances the tax base while meeting the service needs of residents without requiring extensive City services is vital to Brighton's economic future. The City can do little to affect interest rates, consumer prices, or, except for very brief periods, the unemployment rate. When it comes to development, however, the City has considerable ability to stimulate the City's economic development through autonomous actions. Although the availability of a skilled labor supply, location and transportation facilities, and energy costs are far more important in industry location decisions than are local tax and expenditure policies, the level of taxation in the City may be an important determinant of business location within the region. How much the City is willing to provide in tax incentives for economic development depends on the probability that the fiscal incentive will work, the need for jobs in the City, and the potential effect of any new industry on the City's revenue and costs. Whatever the effect of the fiscal environment, the City does what it is most capable of to influence location decisions through the fiscal system.

According to the Michigan Employment Service Agency, the employed labor force of Brighton City residents was 4,300 at year end. According to the Southeast Michigan Council of Governments (SEMCOG), businesses in the City of Brighton employ approximately 9,200 workers, which is expected to increase 33 percent to approximately 12,200 by 2030.

The City's property tax base is well distributed among its taxpayers and has been increasing steadily. Proposal A, which was voted into law on March 15, 1994, created an "assessment cap" of 5 percent or the rate of inflation, whichever is less, until property ownership is transferred, at which time the cap is lifted to the subsequent year's assessed value. Without significant new taxable land development within the City, the assessment cap may adversely affect the City's future ability to finance existing City services. On the other hand, as ownership of properties is transferred and their respective assessment caps are lifted, the cumulative increase in taxable value may exceed the rate of inflation, causing the City's operating millage to be rolled back based on the Headlee Millage Reduction Fraction, which is currently at 15.4059 mills.

Property tax administration involves discovery of the tax base, preparation of an inventory or property list, appraisal and assessment of property value, recognition of exemptions, determination of the tax levy, and finally collection, remittance, and reconciliation of the tax. Fundamental to accomplishing these tasks is the establishment and maintenance of adequate position levels staffed with highly qualified employees, the establishment and maintenance of complete and accurate procedures and forms, and the provision of a system to maintain records and retrieve information in a timely and accurate manner. To that end, I believe the City needs to utilize its existing personnel and technological resources to their optimal value, while at the same time evaluating the need for structural and organizational changes to prepare for the future demands and workloads of this vital and most important revenue source of the City's governmental activities.

The adjusted taxable valuation of \$354,523,600 represents a 7.8 percent increase over the previous year's adjusted taxable valuation. The ratio of total City tax collections to date for tax year 2004 (current and delinquent) to the current tax levy is 99.45 percent.

Long-term Financial Planning - Annually, City staff prepares a six-year Capital Improvement Plan (CIP), which is reviewed by the City Planning Commission and adopted by the City Council. The first year of the adopted CIP is incorporated into the City Manager's proposed budget, if funding is available. The City's DDA has its own development plan, which was previously adopted by the City Council and is also reviewed annually for budgetary considerations. A City-wide Debt Management Policy was recently adopted by the City Council. Among other things, one of the intents of this policy is to establish debt capacity limits or guidelines for the City to use in conjunction with its capital planning and budgeting processes.

Cash Management Policies and Practices - The City makes a serious effort to maximize investment earnings, diversification, and insurability of its investable funds. Idle cash during the year was invested in U.S. treasuries, cash management funds, guaranteed investment contracts, and annuity funds. Interest earned for the current fiscal year amounted to \$255,909, an increase of \$127,701, or 99.6 percent from the preceding year, which was caused by an overall steady increase in market rate yields, along with a proactive policy to seek the highest rate of return possible, after the primary objectives of safety of principal and adequate liquidity are achieved.

The Future

We continue to be fiscally sound, accountable, and have operated the City in a good financial manner despite rising costs and demands for services. However, maintaining a sound financial condition for the City looks challenging. The City's true financial condition can be broadly defined as its ability to finance its services on a continuing basis. More specifically, financial condition refers to the City's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change.

Maintaining Existing Service Levels - The City can currently afford to continue paying for the services it now provides. Current service levels include the maintenance of capital facilities, such as streets and buildings, in a manner that protects the initial investment and keeps the facilities in usable condition. In addition, the continued provision of City services requires funds for future liabilities, such as debt service payments, which are pledged against the future full faith and credit of the City's tax base. However, as the City approaches the practical build-out of its existing undeveloped lands, and if the current negative trends of reduced revenue sharing, reduced personal property taxing ability, and the cumulative effects of the Headlee Amendment and Proposal A continue well into the future, then the City will be forced to look seriously at possible service cuts.

Withstanding Economic Disruption - The City's current undesignated fund balance provides it a cushion to withstand most local and regional economic disruptions, such as a decision by a major employer to move out of the City, producing a significant negative impact on City employment and its tax base, or a surge of national inflation that affects expenditures more heavily than revenue, leaving the City more funds but less purchasing power. Nevertheless, this may not be sufficient in the event of a natural or criminal disaster, which could require the City to borrow short-term to cover unanticipated emergency expenditures.

Meeting Demands of Growth and Deadline - According to recent projections provided by SEMCOG, the City of Brighton's population is expected to increase to only 7,321 by the year 2030. As we have seen in recent years, population growth can force the City to rapidly assume new debt to finance streets and utility lines, or it can cause a sudden increase in the operating budget to provide necessary services. Loss of population, on the other hand, can leave the City with the same streets and utilities to maintain, but with fewer people to pay for them. Even stability can create financial pressure if a population changes composition. For example, a stable population that becomes older and poorer can require new government programs with expensive start-up costs and operating costs that are more expensive than the current service levels. SEMCOG's projections show an 84 percent increase in the City population age 65 or older and a 53 percent decrease in the City population age 1-17 over the next 25 years. Overall, as the population ages, the persons per household is expected to decrease to 1.89.

Financial Forecasting - In order to better understand the financial condition of the City, it will become increasingly important to develop an ongoing financial forecasting model. I believe this financial forecasting model should at minimum parallel the City's CIP six-year time frame. The end result of this forecasting model should be intended to communicate what is likely to happen in the future based on where the City is today and where it appears to be heading. The preparation of a reasonably complete forecast will allow the City to look at its options and prudently plan and act accordingly. The first step in this process will be to evaluate if existing staff resources can accomplish this project or if contractual assistance may be needed to develop and maintain the model with staff assistance.

Accounting and Financial Reporting Resources - GASB continues to issue new statements, which impact and change how the City accounts and reports its financial activities. The statement that will impact the City the most in the next few years is GASB No. 45, which will require changes in the reporting of other postemployment benefits (OPEB). This new accounting statement will bring an increase in accounting workload, largely due to the requirement of the City to calculate an estimate of the non-pension benefits for the City's retirees and potential future retirees, such as retiree health care, to be shown as an accrued liability on the City's accounting records. Rather than using pay-as-you-go for retiree benefits, as the City currently does, GASB No. 45 will require the City to estimate the future value of such benefits for its retirees, and potential future retirees, and then calculate an actuarially-type derived yearly expense to be shown in its financial accounting records. While GASB No. 45 requires only accrued accounting of retiree benefits, failure to then fund the calculated annual liability may have additional credit consequences, as an unfunded paper liability will materialize over time.

The financially prudent approach to funding the future payout of OPEB is to establish a reserve for this noncash expenditure/expense and consequently offset 100 percent of the annual accrued liability; however, this may not be practical, given the City's direct costs which need to be funded each year. However, I recognize that the impact of reflecting a growing unfunded liability on the City's financial records could have negative consequences on the City's future credit rating; therefore, I believe the City will need to develop a financial policy regarding the future funding of OPEB. Based on the City's total annual revenue being just over \$10,000,000 in FY 2002-03, the effective date of this new accounting standard for the City of Brighton will be in FY 2008-09. Therefore, the financial policy to guide the funding of OPEB should be established before staff develops the recommended FY 2008-09 budgets.

In addition, although the City has made recent incremental strides in working toward the ultimate goal of receiving the GFOA's Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award, much more work is still needed to be in position to apply for these awards within the next few years.

To meet these additional demands and those of the development of a financial forecasting model as outlined above, I believe there is a need to evaluate the existing staff resources to determine if additional training and education alone can meet these new requirements and workloads, or in addition to staff development, if the structure and organization of the finance department will need to be changed to meet these new challenges.

Independent Audit

The City Charter requires an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been complied with and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brighton for fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Brighton's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the finance department, as well as the advice from Plante & Moran, PLLC. I wish to express my sincere appreciation to all members of the department who assisted and contributed to its preparation. I would also like to express my thanks to the City Manager, the department directors, and each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, reading "David C. Gajda". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

David C. Gajda
Finance Director

Independent Auditor's Report

To the City Council
City of Brighton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brighton, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Brighton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section and statistical and continuing disclosures, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison schedules, and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

September 16, 2005

City of Brighton, Michigan

Management's Discussion and Analysis

As the finance director of the City of Brighton (the "City"), I offer readers of the City of Brighton's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. I encourage readers to consider the information presented here in conjunction with additional information that I have furnished in my letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- The assets of the primary government and component units of the City exceeded its liabilities at the close of the most recent fiscal year by \$59,261,928 (net assets). Of this amount, \$6,443,082 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$38,684. This increase is the net result of an increase of \$79,613 in component unit (DDA and LDFA) net assets and a decrease of \$40,929 in the net assets of the primary government.
- The \$40,929 decrease in the net assets of the primary government is the net result of a \$393,479 decrease in the net assets of the governmental activities and a \$352,550 increase in net assets of the business-type activities (Utilities Fund). The increase in net assets of the Utilities Fund is primarily the result of resources from connection fees and developer contributions. The decrease in net assets of the governmental activities is primarily the result of a 16 percent increase in net expenses coupled with a 2 percent increase in general revenue.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,448,962, an increase of \$3,676,025 in comparison with the prior year. Approximately 95 percent of the fund balance is available for spending at the City's discretion (unreserved fund balance). The majority of the increase in the unreserved fund balance is the result of new unspent bond proceeds at year end.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,974,173, or 34 percent, of total General Fund operating expenditures.
- The City's total debt (primary government and component units) increased by \$3,436,546 (12 percent) during the current fiscal year. The key factor in this increase was the issuance of \$5,200,000 of new debt partially offset by the annual maturity of pre-existing debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Brighton's basic financial statements. The City of Brighton's basic financial statements currently comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Brighton's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Brighton's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Brighton is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Brighton that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Brighton include general government, public safety, community development, and public services. The business-type activities of the City of Brighton include the water and sewer utility operations.

The government-wide financial statements include not only the City of Brighton itself (known as the primary government), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority, for which the City of Brighton is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Brighton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Brighton can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Brighton currently maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund, Major Street Fund, Local Street Fund, and Capital Improvement Fund, which all are considered to be major funds; and for the two Street Debt Funds and Building Authority Fund, which are considered to be nonmajor funds.

The City of Brighton adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund in the required supplemental information to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds - The City of Brighton maintains one type of propriety fund, which is an Enterprise Fund used to report and account for its utilities (Water and Sewer) Fund operations. The Utilities Fund (which is considered a major fund) is used to report the same functions presented as business-type activities in the government-wide financial statements, but only in more detail. The proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds - Fiduciary funds are intended to be used to account for resources held for the benefit of parties outside the City government organization. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Brighton's own programs. The accounting used for fiduciary funds is much like that of propriety funds. The City of Brighton maintains two fiduciary funds, which are Agency Funds: one for current tax collections and the other for delinquent personal property tax collections. The basic fiduciary fund financial statement can be found on page 24 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-48 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Brighton's budgetary comparisons with actual for its General Fund and major Special Revenue Funds. Required supplementary information can be found on pages 49-52 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As shown below, for the year ended June 30, 2005, assets exceeded liabilities by \$59,261,928.

By far, the largest portion of the City of Brighton's net assets (81 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Brighton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Brighton's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Assets								
Current assets	\$ 10,352.9	\$ 6,508.2	\$ 5,217.3	\$ 6,549.5	\$ 1,076.7	\$ 1,799.2	\$ 16,646.9	\$ 14,856.9
Capital assets	\$ 31,661.9	\$ 31,335.1	\$ 40,445.3	\$ 39,357.0	\$ 4,907.9	\$ 4,395.5	\$ 77,015.1	\$ 75,087.6
Total assets	\$ 42,014.8	\$ 37,843.3	\$ 45,662.6	\$ 45,906.5	\$ 5,984.6	\$ 6,194.7	\$ 93,662.0	\$ 89,944.5
Liabilities								
Current liabilities	\$ 1,862.7	\$ 1,433.2	\$ 1,418.0	\$ 1,508.1	\$ 490.2	\$ 454.2	\$ 3,770.9	\$ 3,395.5
Long-term liabilities	\$ 13,128.5	\$ 8,993.0	\$ 13,120.7	\$ 13,627.0	\$ 4,380.0	\$ 4,705.8	\$ 30,629.2	\$ 27,325.8
Total liabilities	\$ 14,991.2	\$ 10,426.2	\$ 14,538.7	\$ 15,135.1	\$ 4,870.2	\$ 5,160.0	\$ 34,400.1	\$ 30,721.3
Net Assets								
Invested in capital assets -								
Net of related debt	\$ 21,091.7	\$ 22,255.1	\$ 26,433.9	\$ 24,979.9	\$ 968.6	\$ 1,381.5	\$ 48,494.2	\$ 48,616.5
Restricted	\$ 4,324.7	\$ 4,402.3	\$ -	\$ -	\$ -	\$ -	\$ 4,324.7	\$ 4,402.3
Unrestricted (deficit)	\$ 1,607.2	\$ 759.7	\$ 4,690.0	\$ 5,791.5	\$ 145.8	\$ (346.8)	\$ 6,443.0	\$ 6,204.4
Total net assets	\$ 27,023.6	\$ 27,417.1	\$ 31,123.9	\$ 30,771.4	\$ 1,114.4	\$ 1,034.7	\$ 59,261.9	\$ 59,223.2

An additional portion of the City of Brighton's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6,443,082) may be used to meet the City's ongoing obligations to citizens and creditors.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

At the end of the current fiscal year, the City of Brighton is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its primary government and each of its separate activities, i.e., the governmental and business-type activities, as well as its component units.

Governmental Activities - As shown below, governmental activities decreased the City of Brighton's net assets by \$393,479. Last fiscal year, the net assets of the governmental activities increased by \$423,535. The year-over-year change is the result of \$101,782 less total revenue than last fiscal year and \$715,232 more total program expenses than last fiscal year. The decrease in revenue is primarily in the areas of operating grants and contributions, transfers in, other revenue, and state-shared revenue. The increase in expenses is primarily in the public safety and public services programs.

Business-type Activities - Business-type activities increased the City of Brighton's net assets by \$352,550. Last fiscal year, the net assets of the business-type activities increased by \$774,027. The year-over-year change is the result of \$225,329 less total revenue than last fiscal year and \$196,148 more total program expenses than last fiscal year. The decrease in revenue is primarily caused by less connection fees and developer contributions. The increase in expenses is primarily the result of increases in depreciation and service operating expenses.

Component Units - Component units increased the City of Brighton's net assets by \$79,613, compared to an increase of \$24,552 in the prior year. Although both total revenue and total expenses increased from a year ago, tax increment revenue and investment earnings increased by a greater degree than the increase in total program expenses.

Summary Condensed Income Statement (normally presented in thousands of dollars):

	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Revenue								
Program revenue:								
Charges for services	\$ 1,048.7	\$ 1,003.4	\$ 2,687.9	\$ 2,602.6	\$ -	\$ -	\$ 3,736.6	\$ 3,606.0
Operating grants and contributions	423.0	699.6	-	-	-	-	423.0	699.6
Capital grants and contributions	14.3	10.8	2,028.2	2,623.1	19.6	20.1	2,062.1	2,654.0
General revenue:								
Property taxes	5,228.3	4,946.7	-	-	654.3	539.1	5,882.6	5,485.8
State-shared revenue	624.3	625.1	-	-	-	-	624.3	625.1
Unrestricted investment earnings	322.1	255.5	90.3	55.7	40.3	21.0	452.7	332.2
Other	317.4	289.1	-	-	1.4	0.8	318.8	289.9
Transfers	-	249.7	-	(249.7)	-	-	-	-
Total revenue	7,978.1	8,079.9	4,806.4	5,031.7	715.6	581.0	13,500.1	13,692.6

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Income Statement (normally presented in thousands of dollars)
(Continued):

	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Program Expenses								
General government	\$ 1,665.2	\$ 1,636.1	\$ -	\$ -	\$ -	\$ -	\$ 1,665.2	\$ 1,636.1
Public safety	1,995.1	1,790.1	-	-	-	-	1,995.1	1,790.1
Public services	3,578.0	3,159.3	-	-	636.0	556.4	4,214.0	3,715.7
Community development	636.7	613.8	-	-	-	-	636.7	613.8
Interest on long-term debt	496.7	457.2	-	-	-	-	496.7	457.2
Water and sewer	-	-	4,453.8	4,257.7	-	-	4,453.8	4,257.7
Total program expenses	8,371.7	7,656.5	4,453.8	4,257.7	636.0	556.4	13,461.5	12,470.6
Change in Net Assets	\$ (393.6)	\$ 423.4	\$ 352.6	\$ 774.0	\$ 79.6	\$ 24.6	\$ 38.6	\$ 1,222.0

The City's Funds

Governmental Funds - The focus of the City of Brighton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Brighton's financing requirements. In particular, unreserved undesignated fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Brighton's governmental funds reported combined ending fund balances of \$6,448,962, an increase of \$3,676,025 in comparison with the prior year. Approximately 60 percent of this total amount (\$3,853,774) constitutes unreserved undesignated fund balance, which is available for investment and/or spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to (1) liquidate contracts and purchase orders of the prior period or for subsequent year expenditures and (2) be reserved for contingent liabilities and other restricted purposes.

The General Fund is the chief operating fund of the City of Brighton. At the end of the current fiscal year, unreserved undesignated fund balance of the General Fund was \$1,804,058, while the total unreserved fund balance reached \$1,974,173. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund balance to total fund operating expenditures. Unreserved fund balance represents 34 percent of total General Fund operating expenditures.

The total fund balance of the City of Brighton's General Fund increased by \$326,443 during the current fiscal year. The primary factors for this increase were more revenue from property taxes, fines and penalties, licenses and permits; interest earnings; and less transfers out to other funds.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

At the end of the current fiscal year, unreserved undesignated fund balance of the Special Revenue Funds (Major and Local Street Funds) was \$2,049,716, while the total unreserved fund balance was \$2,302,188. The majority of the \$2,049,716 of unreserved and undesignated fund balance at year end is the result of bond proceeds received in June 2005 for FY 2005-06 capital projects, which represents 65 percent of the total Special Revenue Fund expenditures in FY 2005-06.

At the end of the current fiscal year, the Debt Service Funds (Street Voted and Street Non-voted Debt Funds) had a total fund balance of \$0.

At the end of the current fiscal year, fund balance of the Capital Projects Fund (Capital Improvement and Building Authority Funds) was \$1,842,217, which is designated for subsequent year expenditures.

Proprietary Funds - The City of Brighton's Utilities Enterprise Fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Utilities Fund at the end of the year amounted to \$4,690,079, down from \$5,791,517 in the prior year. Although the Utilities Fund had a \$1,122,352 operating loss because primarily the operating revenue does not cover the depreciation expense, this fund generated a net income of \$352,550. This net income, or growth in net assets, is directly attributable to significant one-time collections of connection fees and developer contributions, which more than offset the operating loss.

General Fund Budgetary Highlights

Differences between the original budget and final amended budget can be briefly summarized as follows:

- The \$31,492, or 0.5 percent increase in total revenue from the original budget, reflected primarily a net of more than expected revenue sharing, fines and penalties, licenses and permits, interest earnings, and other revenue, partially offset by less than anticipated tax revenue, federal grants, and service charges.
- The \$14,403 decrease in total expenditures reflects a 0.2 percent decrease over the original budget, caused primarily by less than anticipated expenditures in the general government and community development activity budgets, partially offset by more than anticipated expenditures in the public safety and public services activity budgets.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets - As shown below, the City of Brighton's investment in capital assets for its primary government (governmental and business-type activities) as of June 30, 2005 amounts to \$72,107,224 (net of accumulated depreciation). This investment in capital assets includes land (including rights-of-way), buildings and system, improvements, machinery and equipment, park facilities, streets, and bridges. The City of Brighton's investment in capital assets for its component units (DDA) as of June 30, 2005 amounts to \$4,907,883 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and improvements. The total increase in the City of Brighton's investment in capital assets for the current year was 3 percent (a 1 percent increase in governmental activities, a 3 percent increase for business-type activities, and a 12 percent increase for its component units).

Capital Assets (Net of Depreciation)

	Primary Government							
	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Land	\$ 13,530.8	\$ 13,530.8	\$ 157.4	\$ 157.4	\$ 578.8	\$ 578.8	\$ 14,267.0	\$ 14,267.0
Buildings and system	3,162.4	2,837.4	21,156.9	21,592.1	763.2	626.9	25,082.5	25,056.4
Machinery and equipment	1,374.9	1,249.1	379.4	411.8	3,552.5	3,189.8	5,306.8	4,850.7
Infrastructure	13,593.9	13,717.8	18,718.8	17,118.8	-	-	32,312.7	30,836.6
Construction in progress	-	-	32.9	76.9	13.5	-	46.4	76.9
Total	\$ 31,662.0	\$ 31,335.1	\$ 40,445.4	\$ 39,357.0	\$ 4,908.0	\$ 4,395.5	\$ 77,015.4	\$ 75,087.6

Major capital assets acquired during the current fiscal year included the following:

- **Governmental Activities** - The City-at-Large share of the Millpond Lane Improvements; various other Roadway and Street related improvements; a Cemetery Storage Building; the initial work on the Public Service Garage Expansion and Police Building Expansion projects; and various machinery, equipment, and furnishings
- **Business-type Activities** - Utility-related improvements including the completion of the Pierce Water Plant Rehabilitation project, the start of the Automated Meter Reading System, residential curb and gutter projects, utilities related to other roadway and street projects, the completion of the Pine Creek Water Storage Tank project, developer contributions, and the start of the Lindbom Storm Water project.
- **Component Units** - DDA improvements, including the continued work on the Municipal Complex and the Mill Pond Lane Improvement project

Additional information on the City of Brighton's capital assets can be found in Note 5 on pages 37-40 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt - As shown below, at the end of the current fiscal year, the City of Brighton had total debt outstanding of \$32,258,933. Of this total, \$19,988,933 or 62 percent comprises debt backed by the full faith and credit of the City, including \$1,224,406 of Revenue Bonds; \$3,670,000 or 11 percent is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment; and \$8,600,000 or 27 percent comprises revenue bonds backed by the revenue of the City's Utility Fund. A total of \$13,538,239 or 42 percent of the total debt is governmental activities debt, \$14,011,400 or 43 percent is business-type activities debt, and the remaining \$4,709,294 or 15 percent is component unit debt.

Outstanding Debt (General Obligation, Special Assessment, and Revenue Debt)

	Primary Government							
	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
General Obligation Bonds/Notes	\$ 10,113.2	\$ 5,712.1	\$ 3,942.0	\$ 4,082.9	\$ 4,709.3	\$ 5,003.0	\$ 18,764.5	\$ 14,798.0
Special Assessment Bonds	3,425.0	3,660.0	245.0	280.0	-	-	3,670.0	3,940.0
Revenue bonds with a general obligation pledge	-	-	1,224.4	1,284.4	-	-	1,224.4	1,284.4
Revenue bonds	-	-	8,600.0	8,800.0	-	-	8,600.0	8,800.0
Total	\$ 13,538.2	\$ 9,372.1	\$ 14,011.4	\$ 14,447.3	\$ 4,709.3	\$ 5,003.0	\$ 32,258.9	\$ 28,822.4

The City of Brighton's total debt increased by \$3,436,546 (12 percent) during the current fiscal year. The key factor in this increase was the issuance of \$5,200,000 of Capital Improvement Bonds for various governmental activities and related business-type activities projects (including the City-at-Large share of the Mill Pond Lane Improvement project and the Public Service Garage and Police Building Expansion projects), partially offset by annual maturities of pre-existing debt.

The City of Brighton maintains non-insured ratings as follows: A+ from Standard & Poor's, A3 rating from Moody's, and an A+ from Fitch.

State statutes limit the amount of general obligation debt a City may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Brighton is \$48,959,590, which is significantly in excess of the City's total net debt (total debt less special assessment, revenue and MTF debt) of \$19,718,933. Therefore, the legal debt margin, or what the City could legally add to its outstanding debt at June 30, 2005, was \$29,240,657.

Additional information on the City of Brighton's long-term debt can be found in Note 7 on pages 41-45 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Brighton was 3.9 percent on December 31, 2004, the last known unemployment data available, which is an increase from the rate of 3.6 percent as of June 30, 2004. This compares favorably to the County's average unemployment rate of 4.2 percent, the state's average unemployment rate of 6.9 percent, and the national average unemployment rate of 5.1 percent at December 31, 2004.
- The Consumer Price Index (CPI) for our region (Detroit/Ann Arbor/Flint) was 2.0 percent for the year ended June 30, 2005, which is an increase from the CPI of 1.6 percent a year ago. This compares favorably to the Midwest Urban average CPI rate of 2.5 percent and the national CPI rate of 2.5 percent.

The trends in these economic factors will be considered in preparing the City of Brighton's fiscal year 2006-2007 budget.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$326,427 to \$1,974,173. The City of Brighton has designated \$170,115 of this amount for future subsequent year expenditures and property tax contingencies. The remaining unreserved balance of \$1,804,058 is undesignated. Due to the fact that the Unreserved Fund Balance represents 34 percent of total General Fund operating expenditures at year end, the City will need to bring this percentage down to at most 25 percent in FY 2005-06 to comply with the City's General Fund - fund balance policy. In order to accomplish this, the City should consider appropriating some unreserved fund balance to previously deferred capital improvement projects in FY 2005-06, contingent upon FY 2005-06 budget to actual projections.

The City's utility user fees and connection fees were increased for the FY 2005-06 budget year. The user fees were increased by an average of 3 percent and the connection fees were increased by an average of 8 percent for all customers. The user fee rate increase was necessary to support the ongoing operations and maintenance of the City's utility systems, while the connection fee rate increase was necessary to support the future replacement of existing capital assets from new and future economic development. The City is beginning to see a trend of reduced connection fees as the City approaches its eventual build-out. If connection fees continue to diminish, then the City will need to reduce its use of the utility reserves to fund significant new utility capital projects

Contacting the City's Management

This financial report is designed to provide a general overview of the City of Brighton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David C. Gajda, finance director, City of Brighton, 200 N. First Street, Brighton, MI 48116.

City of Brighton, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 3,971,255	\$ 3,904,707	\$ 7,875,962	\$ 1,065,049
Receivables - Net (Note 4)	3,399,785	976,059	4,375,844	11,644
Restricted assets (Note 8)	2,968,000	-	2,968,000	-
Inventories	-	25,641	25,641	-
Prepaid costs and other assets	13,816	310,922	324,738	-
Capital assets - Not being depreciated (Note 5)	13,530,821	190,220	13,721,041	592,240
Capital assets - Net of depreciation (Note 5)	18,131,107	40,255,076	58,386,183	4,315,643
Total assets	42,014,784	45,662,625	87,677,409	5,984,576
Liabilities				
Accounts payable	529,142	269,705	798,847	160,921
Accrued and other liabilities	329,678	151,006	480,684	-
Noncurrent liabilities (Note 7):				
Due within one year	1,003,884	997,200	2,001,084	329,294
Due in more than one year	13,128,488	13,120,739	26,249,227	4,380,000
Total liabilities	14,991,192	14,538,650	29,529,842	4,870,215
Net Assets				
Invested in capital assets - Net of related debt	21,091,689	26,433,896	47,525,585	968,589
Restricted:				
Public services	3,994,909	-	3,994,909	-
Cemetery care	327,659	-	327,659	-
Economic development	2,104	-	2,104	-
Unrestricted	1,607,231	4,690,079	6,297,310	145,772
Total net assets	<u>\$ 27,023,592</u>	<u>\$ 31,123,975</u>	<u>\$ 58,147,567</u>	<u>\$ 1,114,361</u>

City of Brighton, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,665,206	\$ 741,555	\$ -	\$ -
Public safety	1,995,101	290,546	3,919	-
Public services	3,577,978	16,587	419,081	14,325
Community development	636,682	-	-	-
Interest on long-term debt	496,697	-	-	-
Total governmental activities	8,371,664	1,048,688	423,000	14,325
Business-type activities - Water and sewer	4,453,838	2,687,899	-	2,028,191
Total primary government	\$ 12,825,502	\$ 3,736,587	\$ 423,000	\$ 2,042,516
Component units:				
Downtown Development Authority	\$ 500,285	\$ -	\$ -	\$ 19,600
Local Development Finance Authority	135,731	-	-	-
Total component units	\$ 636,016	\$ -	\$ -	\$ 19,600
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (923,651)	\$ -	\$ (923,651)	\$ -
(1,700,636)	-	(1,700,636)	-
(3,127,985)	-	(3,127,985)	-
(636,682)	-	(636,682)	-
(496,697)	-	(496,697)	-
(6,885,651)	-	(6,885,651)	-
-	262,252	262,252	-
(6,885,651)	262,252	(6,623,399)	-
-	-	-	(480,685)
-	-	-	(135,731)
-	-	-	(616,416)
5,228,267	-	5,228,267	654,314
624,339	-	624,339	-
322,145	90,298	412,443	40,346
317,421	-	317,421	1,369
6,492,172	90,298	6,582,470	696,029
(393,479)	352,550	(40,929)	79,613
27,417,071	30,771,425	58,188,496	1,034,748
\$ 27,023,592	\$ 31,123,975	\$ 58,147,567	\$ 1,114,361

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Assets				
Cash and investments	\$ 2,491,716	\$ 966,829	\$ 47,228	\$ 465,482
Receivables:				
Delinquent taxes	63,892	-	-	-
Special assessments	-	3,113,100	-	-
Due from other governmental units	134,381	71,612	16,800	-
Restricted assets	-	1,421,000	-	1,547,000
Total assets	<u>\$ 2,689,989</u>	<u>\$ 5,572,541</u>	<u>\$ 64,028</u>	<u>\$ 2,012,482</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 138,217	\$ 220,638	\$ 22	\$ 170,265
Accrued liabilities	168,029	-	-	-
Deposits	15,915	-	-	-
Deferred revenue	63,892	3,113,100	-	-
Total liabilities	386,053	3,333,738	22	170,265
Fund Balances				
Reserved for:				
Cemetery care	327,659	-	-	-
Economic development	2,104	-	-	-
Unreserved - Reported in:				
Designated for subsequent years' expenditures	85,115	230,443	22,650	1,842,217
Designated for property tax contingencies	85,000	-	-	-
General Fund	1,804,058	-	-	-
Special Revenue Funds	-	2,008,360	41,356	-
Total fund balances	<u>2,303,936</u>	<u>2,238,803</u>	<u>64,006</u>	<u>1,842,217</u>
Total liabilities and fund balances	<u>\$ 2,689,989</u>	<u>\$ 5,572,541</u>	<u>\$ 64,028</u>	<u>\$ 2,012,482</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds, net of accumulated depreciation

Receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

**Governmental Funds
Balance Sheet
June 30, 2005**

Nonmajor Funds			
Street Voted Debt	Street Non-Voted Debt	Building Authority	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 3,971,255
-	-	-	63,892
-	-	-	3,113,100
-	-	-	222,793
-	-	-	2,968,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,339,040</u>
\$ -	\$ -	\$ -	\$ 529,142
-	-	-	168,029
-	-	-	15,915
-	-	-	3,176,992
-	-	-	3,890,078
-	-	-	327,659
-	-	-	2,104
-	-	-	2,180,425
-	-	-	85,000
-	-	-	1,804,058
-	-	-	2,049,716
-	-	-	6,448,962
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

31,661,928

3,176,992
(14,264,290)

\$ 27,023,592

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Revenue				
Property taxes	\$ 5,228,267	\$ -	\$ -	\$ -
State-shared	624,339	315,691	103,390	-
Federal grants	3,919	-	-	-
Charges for services	220,318	-	-	-
Special assessment	-	231,517	-	-
Fines and penalties	289,502	522	522	-
Licenses and permits	494,217	25,520	1,500	-
Interest	101,043	207,093	946	13,063
Other	292,104	15,875	712	25,317
Total revenue	7,253,709	796,218	107,070	38,380
Expenditures				
Current:				
General government	1,588,897	-	-	-
Public safety	1,877,046	-	-	-
Public services	1,827,229	1,195,945	199,763	-
Community development	633,141	-	-	-
Capital outlay	-	-	-	885,692
Debt service	-	-	-	220,866
Total expenditures	5,926,313	1,195,945	199,763	1,106,558
Excess of Revenue Over (Under) Expenditures	1,327,396	(399,727)	(92,693)	(1,068,178)
Other Financing Sources (Uses)				
Transfers in	-	24,000	39,176	311,584
Transfers out	(1,000,953)	(430,763)	-	-
Issuance of debt	-	2,440,000	-	2,540,000
Debt issuance costs	-	(5,053)	-	(8,764)
Total other financing sources (uses)	(1,000,953)	2,028,184	39,176	2,842,820
Net Change in Fund Balances	326,443	1,628,457	(53,517)	1,774,642
Fund Balances - Beginning of year	1,977,493	610,346	117,523	67,575
Fund Balances - End of year	<u>\$ 2,303,936</u>	<u>\$ 2,238,803</u>	<u>\$ 64,006</u>	<u>\$ 1,842,217</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Nonmajor Funds			Total Governmental Funds
Street Voted Debt	Street Non-Voted Debt	Building Authority	
\$ -	\$ -	\$ -	\$ 5,228,267
-	-	-	1,043,420
-	-	-	3,919
-	-	-	220,318
-	-	-	231,517
-	-	-	290,546
-	-	-	521,237
-	-	-	322,145
-	-	-	334,008
-	-	-	8,195,377
-	-	-	1,588,897
-	-	-	1,877,046
-	-	-	3,222,937
-	-	-	633,141
-	-	-	885,692
370,025	581,081	105,850	1,277,822
370,025	581,081	105,850	9,485,535
(370,025)	(581,081)	(105,850)	(1,290,158)
370,025	581,081	105,850	1,431,716
-	-	-	(1,431,716)
-	-	-	4,980,000
-	-	-	(13,817)
370,025	581,081	105,850	4,966,183
-	-	-	3,676,025
-	-	-	2,772,937
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,448,962</u>

City of Brighton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 3,676,025

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and recorded as depreciation expense:

Capital outlay	\$ 1,712,387	
Depreciation expense	<u>(1,385,546)</u>	326,841

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (217,192)

Bond proceeds received. Governmental funds report proceeds as revenues when received rather than capitalizing the long-term debt (4,980,000)

Bond discounts from the issuance of debt. Governmental funds report discounts as expense when received rather than capitalizing and amortizing the discount 13,817

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 813,830

Decreases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when incurred in the statement of activities 5,904

Interest expense accrued on long-term debt (32,704)

Change in Net Assets of Governmental Activities **\$ (393,479)**

City of Brighton, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise - Utility Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,904,707
Receivables:	
Customer	723,568
Special assessments	252,491
Inventories	<u>25,641</u>
Total current assets	4,906,407
Noncurrent assets:	
Other assets	310,922
Capital assets	<u>40,445,296</u>
Total noncurrent assets	<u>40,756,218</u>
Total assets	45,662,625
Liabilities	
Current liabilities:	
Accounts payable	269,705
Accrued and other liabilities	151,006
Current portion of long-term debt	<u>997,200</u>
Total current liabilities	1,417,911
Noncurrent liabilities:	
Provision for compensated absences	106,539
Long-term debt - Net of current portion	<u>13,014,200</u>
Total noncurrent liabilities	<u>13,120,739</u>
Total liabilities	<u>14,538,650</u>
Net Assets	
Invested in capital assets - Net of related debt	26,433,896
Unrestricted	<u>4,690,079</u>
Total net assets	<u><u>\$ 31,123,975</u></u>

City of Brighton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise - Utility Fund
Operating Revenue	
Sales	\$ 2,224,214
Penalties	31,420
Tap charges and other	432,265
Total operating revenue	2,687,899
Operating Expenses	
Salaries and fringe benefits	1,203,460
Other purchased services	449,515
Purchased property services	136,611
Professional and technical services	78,255
Supplies	158,723
Depreciation	1,429,624
Amortization	28,033
Property	45,311
Utilities	278,116
Other	2,603
Total operating expenses	3,810,251
Operating Loss	(1,122,352)
Nonoperating Revenue (Expense)	
Interest income	90,298
Interest expense	(643,587)
Total nonoperating expense	(553,289)
Loss - Before contributions	(1,675,641)
Capital Contributions	2,028,191
Change in Net Assets	352,550
Net Assets - Beginning of year	30,771,425
Net Assets - End of year	\$ 31,123,975

City of Brighton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise - Utility Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 3,188,571
Payments to suppliers	(1,400,509)
Payments to employees	<u>(1,199,103)</u>
Net cash provided by operating activities	588,959
Cash Flows from Capital and Related Financing Activities	
Contributions received	1,837,192
Principal paid on debt	(655,936)
Proceeds from issuance of new debt	220,000
Acquisition and construction of capital assets	(2,326,886)
Interest paid on debt	<u>(643,587)</u>
Net cash used in capital and related financing activities	(1,569,217)
Cash Flows from Investing Activities - Interest received on investments	<u>90,298</u>
Net Decrease in Cash and Cash Equivalents	(889,960)
Cash and Cash Equivalents - Beginning of year	<u>4,794,667</u>
Cash and Cash Equivalents - End of year	<u>\$ 3,904,707</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,122,352)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization expense	1,457,657
Changes in assets and liabilities:	
Accounts receivable	500,672
Inventories and other assets	(86,480)
Accounts payable	(164,895)
Accrued and other liabilities	<u>4,357</u>
Net cash provided by operating activities	<u>\$ 588,959</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, developers constructed water and sewer lines with an estimated value of \$191,000 and donated them to the City's Enterprise Fund.

City of Brighton, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2005

Agency Fund -
Tax Collection

Assets - Cash and equivalents

\$ 193

Liabilities - Accounts payable

\$ 193

City of Brighton, Michigan

Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Local Development Finance Authority	Totals
Assets			
Cash and investments	\$ 1,020,606	\$ 44,443	\$ 1,065,049
Receivables - Delinquent taxes	11,644	-	11,644
Capital assets	<u>4,907,883</u>	<u>-</u>	<u>4,907,883</u>
Total assets	5,940,133	44,443	5,984,576
Liabilities			
Accounts payable	159,273	1,648	160,921
Long-term debt	<u>3,939,294</u>	<u>770,000</u>	<u>4,709,294</u>
Total liabilities	<u>4,098,567</u>	<u>771,648</u>	<u>4,870,215</u>
Net Assets			
Investment in capital assets - Net of related debt	968,589	-	968,589
Unrestricted (deficit)	<u>872,977</u>	<u>(727,205)</u>	<u>145,772</u>
Total net assets	<u>\$ 1,841,566</u>	<u>\$ (727,205)</u>	<u>\$ 1,114,361</u>

City of Brighton, Michigan

		<u>Program Revenues</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 500,285	\$ 19,600
Local Development Finance Authority	<u>135,731</u>	<u>-</u>
Total governmental activities	<u>\$ 636,016</u>	<u>\$ 19,600</u>

General revenues:

Taxes
Interest
Other

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Local Development Authority	Total
\$ (480,685)	\$ -	\$ (480,685)
<u>-</u>	<u>(135,731)</u>	<u>(135,731)</u>
(480,685)	(135,731)	(616,416)
580,415	73,899	654,314
38,561	1,785	40,346
<u>1,369</u>	<u>-</u>	<u>1,369</u>
<u>620,345</u>	<u>75,684</u>	<u>696,029</u>
139,660	(60,047)	79,613
<u>1,701,906</u>	<u>(667,158)</u>	<u>1,034,748</u>
<u><u>\$ 1,841,566</u></u>	<u><u>\$ (727,205)</u></u>	<u><u>\$ 1,114,361</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Brighton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Brighton, Michigan:

Reporting Entity

The City of Brighton, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Units

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of 13 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Local Development Financing Authority was created to encourage local economic development to prevent conditions of unemployment and promote economic growth in the community. The Authority's governing body, consisting of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise Fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds and the Agency Fund utilize the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, for special assessments, which will be collected after the period of availability, receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major and Local Streets Funds - Major and Local Streets Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Capital Improvement Fund - The Capital Improvement Fund is a Capital Projects Fund used to account for the development of non-street related governmental activity capital improvements and related debt of the City.

The City reports the following major proprietary funds:

Utility Fund - The Utility Fund accounts for the results of operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following nonmajor funds:

Street Voted Debt and Street Non-Voted Debt Funds - Street Voted Debt and Street Non-Voted Debt Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Building Authority Fund - The Building Authority Fund is a Capital Projects Fund used to account for the development of governmental activity capital facility/building improvements and related debt of the City. This fund was created in 1994 by resolution of the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected to also follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are have a final collection date of February 28 of the following year, at which time they are added to the county tax rolls.

The City's 2004 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the City totaled \$354,523,600 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 14.8872 mills for operating purposes and 1.0428 mills for debt service. This resulted in \$5,277,864 for operating and \$369,697 for debt service (a portion of which is captured by the LDFA and DDA). These amounts are recognized in the General Fund as tax revenue. Revenues recognized related to the debt service levy are then transferred to the Street Voted Debt Service Fund to properly reflect the debt service levy in that fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of one year or less when acquired. Investments are stated at fair value. Pooled investment income from various funds is generally allocated to each fund using a weighted average method.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Brighton, Michigan's water and sewer lines. Unspent bond proceeds of the Capital Projects Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer transmission lines	40 to 50 years
Retention/Equilization basin	40 to 50 years
Building/Treatment facilities	40 to 50 years
Buildings and improvements	40 to 50 years
Machinery and equipment	3 to 15 years
Equipment and other	3 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unrestricted fund deficit in the Local Development Finance Authority is due to debt issued for assets constructed and subsequently transferred to the City. Tax captures in future years are intended to pay the related debt service.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004		\$ (103,028)
Current year building permit revenue		403,413
Related expenses:		
Direct costs	\$ 341,991	
Estimated indirect costs	<u>25,649</u>	
Total construction code expenses		<u>367,640</u>
Current year revenue in excess of expenditures		<u>35,773</u>
Cumulative shortfall at June 30, 2005		<u>\$ (67,255)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated 13 banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$7,556,054 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The total amount of bank deposits (certificates of deposit, checking, and savings accounts) insured at year end was \$921,239. The total amount of bank deposits collateralized with securities held by the pledging financial institution was \$1,116,169. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit does not have a deposit policy for custodial credit risk. At year end, the component unit had \$1,134,139 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The component unit believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the component unit evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Interlocal Agreement Fund	\$ 723,056	Not rated	-
Bank investment pools	849,684	A-I	S&P

Note 4 - Receivables

Receivables as of year end for the City, including the applicable allowances for uncollectible accounts, are as follows:

	Primary Government						
	Governmental Activities						
	General Fund	Major Street Fund	Local Street Fund	Total	Business-type Activities	Total	Component Units
Receivables:							
Taxes	\$ 63,892	\$ -	\$ -	\$ 63,892	\$ -	\$ 63,892	\$ -
Customer	-	-	-	-	723,568	723,568	11,644
Special assessments	-	3,113,100	-	3,113,100	252,491	3,365,591	-
Intergovernmental	134,381	71,612	16,800	222,793	-	222,793	-
Net receivables	\$ 198,273	\$ 3,184,712	\$ 16,800	\$ 3,399,785	\$ 976,059	\$ 4,375,844	\$ 11,644

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the only component of deferred revenue was as follows:

	Unavailable
Delinquent property taxes	\$ 63,892
Special assessments	3,113,100
Total	\$ 3,176,992

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land, including right-of-ways	\$ 13,530,821	\$ -	\$ -	\$ 13,530,821
Capital assets being depreciated:				
Roads and sidewalks	20,550,881	842,787	-	21,393,668
Buildings and improvements	4,070,990	430,410	-	4,501,400
Equipment and other	2,804,018	439,191	-	3,243,209
Subtotal	27,425,889	1,712,388	-	29,138,277
Accumulated depreciation:				
Roads and sidewalks	6,833,113	966,679	-	7,799,792
Buildings and improvements	1,233,550	105,495	-	1,339,045
Equipment and other	1,554,961	313,372	-	1,868,333
Subtotal	9,621,624	1,385,546	-	11,007,170
Net capital assets being depreciated	17,804,265	326,842	-	18,131,107
Net capital assets	<u>\$ 31,335,086</u>	<u>\$ 326,842</u>	<u>\$ -</u>	<u>\$ 31,661,928</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 157,362	\$ -	\$ -	\$ 157,362
Construction in progress	76,938	32,858	76,938	32,858
Subtotal	234,300	32,858	76,938	190,220
Capital assets being depreciated:				
Water and sewer transmission lines	20,581,928	1,398,183	-	21,980,111
Retention/Equalization basin	2,246,039	815,241	-	3,061,280
Buildings/Treatment facilities	29,411,515	304,802	-	29,716,317
Machinery and equipment	1,039,648	43,740	-	1,083,388
Subtotal	53,279,130	2,561,966	-	55,841,096
Accumulated depreciation:				
Water and sewer transmission lines	5,449,260	544,933	-	5,994,193
Retention/Equalization basin	259,928	68,482	-	328,410
Buildings/Treatment facilities	7,819,368	740,076	-	8,559,444
Machinery and equipment	627,840	76,133	-	703,973
Subtotal	14,156,396	1,429,624	-	15,586,020
Net capital assets being depreciated	39,122,734	1,132,342	-	40,255,076
Net capital assets	<u>\$ 39,357,034</u>	<u>\$ 1,165,200</u>	<u>\$ 76,938</u>	<u>\$ 40,445,296</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Brighton's component units for the year was as follows:

Component Units	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 578,764	\$ -	\$ -	\$ 578,764
Construction in progress	-	13,476	-	13,476
Subtotal	578,764	13,476	-	592,240
Capital assets being depreciated:				
Buildings	1,353,925	335,239	-	1,689,164
Equipment and other	3,200,627	365,519	-	3,566,146
Subtotal	4,554,552	700,758	-	5,255,310
Accumulated depreciation:				
Buildings	727,022	198,959	-	925,981
Equipment and other	10,829	2,857	-	13,686
Subtotal	737,851	201,816	-	939,667
Net capital assets being depreciated	3,816,701	498,942	-	4,315,643
Net capital assets	<u>\$ 4,395,465</u>	<u>\$ 512,418</u>	<u>\$ -</u>	<u>\$ 4,907,883</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 82,213
Public safety	118,055
Public services	1,181,737
Community development	3,541
Total governmental activities	<u>\$ 1,385,546</u>

Depreciation expense for business-type activities was \$1,429,624.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects include unspent Drinking Water Revolving Funds held on behalf of the City at the Michigan Municipal Bond Authority. At year end, the City's commitments with contractors are as follows:

Project Description	Spent to Date	Commitment
Millpond Lane Improvement Project	\$ 741,546	\$ 1,020,226
FY 2004-05 Street Projects	1,000,203	5,000
Lindbom Storm Sewer Project	475,782	196,968
Police and DPS Building Expansion Project	265,854	1,436,434
Total	<u>\$ 2,483,385</u>	<u>\$ 2,658,628</u>

In addition, the City has committed to construction projects that are scheduled to begin subsequent to year end, as follows:

	Commitment
Livingston, Brighton, & Michigan Street Curb and Gutter Project	\$ 412,226

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Street Fund	\$ 24,000
General Fund	Street Non-Voted Debt Fund	189,494
General Fund	Street Voted Debt Fund	370,025
General Fund	Capital Improvement Fund	311,584
General Fund	Building Authority Fund	105,850
Major Street Fund	Street Non-Voted Debt Fund	391,587
Major Street Fund	Local Street Fund	39,176
Total		<u>\$ 1,431,716</u>

The transfers from the General Fund to the Major Street Fund, Building Authority Fund and Capital Improvement Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City as of June 30, 2005:

	Governmental Activities	Business-type Activities
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated June 1, 2005; maturing October 2025	\$ 3,000,000	\$ -
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated November 1, 2004; maturing October 2026	1,980,000	220,000
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated August 13, 2003; maturing in April 2018	510,000	-
Special Assessment Limited Tax Bond, 3.50% to 5.00%, dated May 29, 2002; maturing in October 2021	3,200,000	-
Street Bonds General Obligation Limited Tax, 3.50% to 5.00%, dated May 29, 2002; maturing in October 2021	380,000	-
Special Assessment Limited Tax Street Bond, 4.75% to 5.60%, dated October 1, 1994; maturing October 2008	225,000	-
Street Bonds General Obligation Unlimited Tax, 5.00% to 5.80%, dated June 1, 1996; maturing in October 2011	1,250,000	-
Building Authority General Obligation Limited Tax, 5.00% to 5.90%, dated August 1, 1996; maturing in November 2015	950,000	-
Street Bonds General Obligation Unlimited Tax, 4.40% to 4.75%, dated October 1, 1996; maturing in November 2012	1,525,000	-
1999 Michigan Transportation Fund Bonds, 5.00% to 7.00%, dated September 1, 1999; maturing in August 2013	270,000	-
Installment loan - Property, 5.10%, dated April 6, 1999; maturing February 2007	128,111	-
Installment loan - Capital Improvement, 4.85%, dated November 20, 2000; maturing February 2006	120,128	-

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

	Governmental Activities	Business-type Activities
2004 Drinking Water Revolving Funds, 2.125%, dated March 25, 2004; maturing October 2023	\$ -	\$ 1,460,000
Sewage Treatment Refunding General Obligation Bonds, 4.65% to 4.75%, dated March 1, 1997; maturing April 2006	-	355,000
1995 Special Assessment Bonds, 5.00% to 5.50%, dated July 1, 1993; maturing April 2012	-	245,000
Contract Payable - Livingston County Water Supply System, 6.00%, dated December 1, 1997; maturing December 2016	-	206,400
Contract Payable - Livingston County Water Project, 5.20% to 7.20%, dated September 1, 1988; maturing October 2009	-	600,000
Contract Payable - Livingston County Water Supply System, 4.20% to 5.00%, dated September 1, 1988; maturing November 2015	-	1,225,000
Contract Payable - Livingston County Water Supply System, 5.00% to 6.50%, dated December 1, 1999; maturing November 2020	-	1,100,000
Michigan Municipal Bond Authority - Wastewater Plant Expansion Revenue Bonds, 3.50% to 5.38 %, dated March 29, 2001; maturing November 2020	-	8,600,000
Compensated absences	594,133	106,539
Total	<u>\$ 14,132,372</u>	<u>\$ 14,117,939</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

The following is a summary of the debt outstanding of the component units as of June 30, 2004:

	<u>Component Units</u>
2002 Downtown Development Bonds General Obligation Limited Tax, 2.00% to 4.00%, dated November 1, 2002	\$ 2,675,000
2004 Local Development Bonds General Obligation Limited Tax, 4.50% to 4.90%, dated May 29, 2002	550,000
1995 Downtown Development Bonds General Obligation Limited Tax, 6.00% to 6.40%, dated October 1, 1996	525,000
Local Development Bonds General Obligation Limited Tax, 5.10% to 5.70%, dated October 1, 1996	220,000
Downtown Development Bonds General Obligation Limited Tax, 4.25% to 7.25%, dated September 1, 1998	725,000
Land Contract - Property, 4.36%, dated June 4, 1999	<u>14,294</u>
Total	<u><u>\$ 4,709,294</u></u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds and notes payable	\$ 5,712,069	\$ 4,980,000	\$ (578,830)	\$ 10,113,239	\$ 612,379
Special assessment bonds	3,660,000	-	(235,000)	3,425,000	235,000
Compensated absences	600,037	-	(5,904)	594,133	156,505
Total governmental activities	<u>\$ 9,972,106</u>	<u>\$ 4,980,000</u>	<u>\$ (819,734)</u>	<u>\$ 14,132,372</u>	<u>\$ 1,003,884</u>
Business-type Activities					
General obligation bonds and notes payable	\$ 14,433,600	\$ 220,000	\$ (887,200)	\$ 13,766,400	\$ 962,200
Special assessment bonds	280,000	-	(35,000)	245,000	35,000
Compensated absences	101,865	4,674	-	106,539	-
Total business-type activities	<u>\$ 14,815,465</u>	<u>\$ 224,674</u>	<u>\$ (922,200)</u>	<u>\$ 14,117,939</u>	<u>\$ 997,200</u>
Component Unit - General obligation bonds and notes payable	<u>\$ 5,002,982</u>	<u>\$ -</u>	<u>\$ (293,688)</u>	<u>\$ 4,709,294</u>	<u>\$ 329,294</u>

Debt Service Requirements

The annual requirements to service all debt outstanding of the City as of June 30, 2005 (excluding sick and vacation benefits), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 847,379	\$ 566,500	\$ 1,413,879	\$ 997,200	\$ 621,906	\$ 1,619,106
2007	775,860	548,579	1,324,439	742,200	576,642	1,318,842
2008	740,000	514,667	1,254,667	787,200	5,493,351	6,280,551
2009	820,000	479,780	1,299,780	842,200	508,339	1,350,539
2010	892,500	441,239	1,333,739	899,700	469,759	1,369,459
2011-2015	3,997,500	1,606,940	5,604,440	4,018,500	1,816,005	5,834,505
2016-2020	2,800,000	892,591	3,692,591	4,369,400	832,701	5,202,101
2021-2025	2,100,000	339,045	2,439,045	1,320,000	53,591	1,373,591
2026-2030	565,000	20,390	585,390	35,000	1,641	36,641
Total	<u>\$ 13,538,239</u>	<u>\$ 5,409,731</u>	<u>\$ 18,947,970</u>	<u>\$ 14,011,400</u>	<u>\$ 10,373,935</u>	<u>\$ 24,385,335</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Debt Service Requirements (Continued)

The annual requirements to service all debt outstanding of the component units as of June 30, 2005, including both principal and interest, are as follows:

	Component Units		
	Principal	Interest	Total
2006	\$ 329,294	\$ 198,561	\$ 527,855
2007	320,000	187,194	507,194
2008	370,000	174,595	544,595
2009	400,000	159,114	559,114
2010	430,000	142,491	572,491
2011-2015	2,520,000	415,825	2,935,825
2016-2020	170,000	68,307	238,307
2021-2025	170,000	19,208	189,208
Total	<u>\$ 4,709,294</u>	<u>\$ 1,365,295</u>	<u>\$ 6,074,589</u>

Description of Long-term Debt

Primary Government - The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, \$1,050,000 of bonds outstanding is considered defeased.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business- type Activities	Total	Component Units
Unspent bond proceeds and related interest	\$ 2,968,000	\$ -	\$ 2,968,000	\$ -

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and disability claims and participates in the Michigan Municipal League risk pool for claims relating to general liability, property, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires no contribution from the employees. The funding policy provides for periodic employer contributions at actuarially determined rates.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost of \$354,642 for the plan was equal to or greater than the City's required actuarial contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.0 percent to 2.5 percent per year cost of living adjustments for certain retirees. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

	Fiscal Year Ended December 31		
	2003	2004	2005
Annual pension costs (APC)	\$ 308,500	\$ 317,433	\$ 354,642
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	2003	2004	2005
Actuarial value of assets	\$ 4,598,163	\$ 5,109,015	\$ 5,669,826
Actuarial accrued liability (AAL)			
(entry age)	\$ 6,310,548	\$ 6,974,789	\$ 8,049,881
Unfunded AAL (UAAL)	\$ 1,712,385	\$ 1,865,774	\$ 2,380,055
Funded ratio	73%	73%	70%
Covered payroll	\$ 2,607,228	\$ 2,821,164	\$ 2,958,240
UAAL as a percentage of covered payroll	66%	66%	80%

Note 11 - Other Postemployment Benefits

The City provides postemployment health benefits to all full-time employees upon retirement, in accordance with City policy. Currently, 15 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health benefits are recognized in the General Fund and Utility Fund as the insurance premiums become due; during the year, this amounted to approximately \$155,260.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
Property taxes	\$ 5,257,372	\$ 5,228,167	\$ 5,228,267	\$ 100
State-shared	609,281	615,989	624,339	8,350
Federal grants	10,000	3,919	3,919	-
Charges for services	234,545	211,952	220,318	8,366
Fines and penalties	259,270	273,004	289,502	16,498
Licenses and permits	361,000	392,200	494,217	102,017
Interest	75,050	85,000	101,043	16,043
Other	197,122	224,901	252,964	28,063
Total revenue	7,003,640	7,035,132	7,214,569	179,437
Expenditures				
General government:				
City council	70,778	67,100	58,129	8,971
City manager	109,286	106,822	99,189	7,633
City clerk	187,221	198,643	169,024	29,619
Legal services	170,867	164,764	152,168	12,596
Personnel	72,729	70,001	70,000	1
Finance	322,715	307,203	303,471	3,732
Information technology	217,913	219,001	202,286	16,715
Postemployment benefits	427,660	427,660	407,813	19,847
Other agencies	132,110	132,110	126,039	6,071
Contingencies	126,819	1,000	778	222
Total general government	1,838,098	1,694,304	1,588,897	105,407
Public safety - Police department	1,764,684	1,907,586	1,877,046	30,540
Public services	1,902,737	1,957,708	1,827,229	130,479
Community development	726,186	686,510	633,141	53,369
Other Financing Sources (Uses)				
Transfers from other funds and component units	38,600	39,140	39,140	-
Transfers to other funds and component units	(1,044,298)	(996,244)	(1,000,953)	(4,709)
Total other financing sources (uses)	(1,005,698)	(957,104)	(961,813)	(4,709)
Net Change in Fund Balance	(233,763)	(168,080)	326,443	494,523
Fund Balance - Beginning of year	1,977,493	1,977,493	1,977,493	-
Fund Balance - End of year	<u>\$ 1,743,730</u>	<u>\$ 1,809,413</u>	<u>\$ 2,303,936</u>	<u>\$ 494,523</u>

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
State-shared	\$ 330,000	\$ 329,000	\$ 315,691	\$ (13,309)
Special assessments	232,193	232,193	231,517	(676)
Fines and penalties	750	500	522	22
Licenses and permits	24,195	23,564	25,520	1,956
Interest	8,000	13,500	207,093	193,593
Other	187,721	201,880	15,875	(186,005)
Total revenue	782,859	800,637	796,218	(4,419)
Expenditures				
Administration	61,154	61,154	75,185	(14,031)
Engineering services	-	218,295	218,547	(252)
Street construction	857,000	848,419	637,816	210,603
Routine maintenance	122,839	122,839	117,449	5,390
Trust maintenance	58,626	42,696	22,198	20,498
Traffic service	51,096	56,000	55,680	320
Winter maintenance	62,900	69,099	69,070	29
Total expenditures	1,213,615	1,418,502	1,195,945	222,557
Other Financing Sources (Uses)				
Operating transfers in	24,000	24,000	24,000	-
Operating transfers out	(430,763)	(430,763)	(430,763)	-
Issuance of debt	890,000	843,458	2,440,000	1,596,542
Bond discount	-	-	(5,053)	(5,053)
Total other financing sources (uses)	483,237	436,695	2,028,184	1,591,489
Net Change in Fund Balance	52,481	(181,170)	1,628,457	1,809,627
Fund Balance - Beginning of year	610,346	610,346	610,346	-
Fund Balance - End of year	<u>\$ 662,827</u>	<u>\$ 429,176</u>	<u>\$ 2,238,803</u>	<u>\$ 1,809,627</u>

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Local Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
State-shared	\$ 105,000	\$ 105,000	\$ 103,390	\$ (1,610)
Fines and penalties	750	750	522	(228)
Licenses and permits	3,400	3,400	1,500	(1,900)
Interest	1,000	1,000	946	(54)
Other	2,600	2,600	712	(1,888)
Total revenue	112,750	112,750	107,070	(5,680)
Expenditures				
Administration	3,247	3,247	3,247	-
Routine maintenance	75,164	75,164	75,164	-
Trust maintenance	8,626	58,626	41,140	17,486
Traffic service	37,169	37,169	30,380	6,789
Winter maintenance	46,175	46,175	49,832	(3,657)
Total expenditures	170,381	220,381	199,763	20,618
Other Financing Sources - Operating transfers in	39,176	39,176	39,176	-
Net Change in Fund Balance	(18,455)	(68,455)	(53,517)	14,938
Fund Balance - Beginning of year	117,523	117,523	117,523	-
Fund Balance - End of year	<u>\$ 99,068</u>	<u>\$ 49,068</u>	<u>\$ 64,006</u>	<u>\$ 14,938</u>

City of Brighton, Michigan

Notes to Required Supplemental Information June 30, 2005

Capital Improvement Fund Budget - The Council adopted a budget for the Capital Improvement Fund based on total expenditures. The original and amended budgeted expenditures were \$1,173,387 and \$1,240,962, respectively. Actual expenditures were \$1,106,558.

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except for operating transfers to the component units were budgeted as operating transfers rather than external transactions. The City's budget is prepared in compliance with the uniform budgeting provisions of Michigan law.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from, any appropriation account that lacks a sufficient balance available to meet the obligation.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as designations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Budgetary Process - The City's annual budget process for the subsequent year begins soon after the audited annual financial report for the prior year is presented to the City Council. After the audit presentation, the City Council holds an annual fall goal setting retreat, which results in the establishment of the City's goals and objectives for the following year. Soon after the Council's annual goal setting retreat, staff prepares a six-year Capital Improvement Program (CIP), which is reviewed by the Planning Commission and adopted by the City Council in February. The first year of the adopted six-year CIP is then considered for inclusion in the next year's requested budget document. In January of each year, staff begins developing the operating budget for the next year. In March of each year, the City Manager presents to the City Council the manager's recommended budget for the next year. In April and May of each year, the City Council reviews the manager's recommended budget, makes changes at their discretion, holds a public hearing and ultimately adopts the City budget for the fiscal year, which begins the next July 1.

Statistical and Continuing Disclosures

APPENDIX A

STATISTICAL AND DISCLOSURE SECTION

City of Brighton Bond Investors' interests must be protected through mechanisms that promote fair markets, honest managers and full and fair disclosure.

All City bond investors have the right to management and policy makers who:

1. provide equal and fair treatment;
2. treat their money with fiscal responsibility and due care as if it were their own;
3. foster a corporate culture of integrity, honesty and adherence to the spirit as well as the letter of the law;
4. shoot straight - who tell the bondholders the complete story, without omission, without hype, without spin, and without delay;
5. foster a corporate culture in which people don't cut corners just so they can report favorably on the achievement of individual or organizational goals;
6. understands their job is to manage the business, not the numbers;
7. clearly understands it is the steward of the bondholders' investments;
8. provides timely and consistently transparent disclosures that reflect the true economics of the City's business, including complete and unbiased financial disclosures of all matters management or the auditors would want to know if they were investing in the City themselves;
9. contract with independent auditors that act on behalf of investors as challenging skeptics who must be convinced of the facts; and
10. participate in competitive bond markets, where sales are executed at the best possible price.

To this end, below you will find certain financial information and operating data per the disclosure requirements of the federal securities laws.

PROPERTY VALUATIONS

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of the true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1995, taxable property will have two valuations -- State Equalized Valuation ("SEV") and Taxable Value. Property taxes will be levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b) the property's current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property's SEV.

This constitutional amendment and the implementing legislation base the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994 and for the years 1996 and thereafter on the Taxable Value of the property in the preceding year. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the City Assessor. Any property owner may appeal the assessment to the City Assessor, the local Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the City Assessor is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the City Assessor. These assessments are then equalized to the 50% levels as determined by the Livingston County Department of Equalization. Thereafter, the State equalizes Livingston County in relation to other counties. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs and State revenue sharing.

Property that is exempt from property taxes, e.g., churches, government property, public schools, is not included in the SEV and Taxable Value data in the City's Bond Official Statement. Property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), or Act 255, Public Acts of Michigan, 1978, as amended ("Act 255"), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the City's Bond Official Statement except as noted. Property taxpayers may appeal their assessments to the Michigan Tax Tribunal. Unless otherwise ordered by the Tax Tribunal, before the Tax Tribunal renders a decision on an assessment appeal, the taxpayer must have paid the tax bill. The City currently has four tax appeals pending before the Tax Tribunal.

HISTORY OF PROPERTY VALUATIONS

<u>Year</u>	<u>State Equalized Valuation</u>	<u>Taxable Value</u>
2005	\$474,639,350	\$386,465,350
2004	\$428,528,700	\$354,523,600
2003	\$396,171,700	\$328,690,500
2002	\$371,088,100	\$310,761,900
2001	\$346,948,700	\$288,571,700
2000	\$292,188,300	\$262,290,300
1999	\$271,042,700	\$244,011,300
1998	\$240,722,000	\$222,746,800
1997	\$217,035,200	\$204,863,268
1996	\$202,159,500	\$190,535,700

An analysis of the Taxable Value is as follows:

BY CLASS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Real Property	\$349,943,550	\$323,897,700	\$298,920,700
Personal Property*	<u>36,521,800</u>	<u>30,625,900</u>	<u>29,769,800</u>
TOTAL	<u>\$386,465,350</u>	<u>\$354,523,600</u>	<u>\$328,690,500</u>

BY USE

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Residential	\$207,497,750	\$191,737,300	\$174,972,500
Commercial	123,503,800	114,550,700	108,478,900
Industrial	18,942,000	17,609,700	15,469,300
Personal Property*	<u>36,521,800</u>	<u>30,625,900</u>	<u>29,769,800</u>
TOTAL	<u>\$386,465,350</u>	<u>\$354,523,600</u>	<u>\$328,690,500</u>

* The Michigan Department of Treasury approved revisions to the State's personal property tax tables which became effective in the year 2000 and which may reduce overall personal property tax revenue. The State Tax Tribunal has informally indicated that it may allow the new multipliers to be applied retroactively in pending personal property tax appeals. The retroactive financial impact of the change in multipliers, if required, on the City's tax revenue is estimated to be \$85,000, which is designated as such in the General Fund's fund balance. Personal property represents 9% of the total property currently subject to taxation in the jurisdictional boundaries of the City and generated operating revenue from taxes on personal property in FY 2004-05 of \$456,000.

MAJOR TAXPAYERS

The 2005 State Equalized Valuation and the 2005 Taxable Value of each of the City's major taxpayers (including abatements) is as follows:

<u>Name of Taxpayer</u>	<u>State Equalized Valuation</u>	<u>Taxable Value</u>
Brighton Mall	\$11,605,241	\$7,306,100
Brighton Holdings	8,090,138	6,588,800
Brighton Interior Systems	6,951,139	6,629,689
Meijer Thrifty-Brighton	6,184,651	4,837,200
MJR Group	5,446,825	4,683,000
BMH Realty	5,176,256	3,470,600
Brighton Commercial	4,477,736	3,501,000
Ontegra - Brighton	4,461,289	4,041,100
Eber Spaecher NA, Inc.	4,432,524	4,369,203
Target Corporation	4,363,841	3,684,700

TAX RATES*

(Per \$1,000 of Taxable Value)

		<u>2005</u>		<u>2004</u>		<u>2003</u>	
		<u>Homestead</u>	<u>Non Homestead</u>	<u>Homestead</u>	<u>Non Homestead</u>	<u>Homestead</u>	<u>Non Homestead</u>
City of Brighton	-Operating	\$14.8872	\$14.8872	\$14.8872	\$14.8872	\$14.8872	\$14.8872
	-Debt	1.0546	1.0546	1.0428	1.0428	1.1622	1.1622
County of Livingston including the Huron Clinton Metropolitan Authority		3.8729	3.8729	3.9168	3.9168	4.1454	4.1454
Brighton Area School District							
	-Operating	0.0000	18.0000	0.0000	18.0000	0.0000	18.0000
	-Site Fund	.9310	.9310	.9310	.9310	.9427	.9427
	-Debt	5.2000	5.2000	5.2000	5.2000	5.6400	5.6400
State Education Tax		6.0000	6.0000	6.0000	6.0000	5.0000	5.0000
Livingston Educational Service Agency		2.3824	2.3824	2.3824	2.3824	2.4088	2.4088
Brighton Area Fire Authority		.9612	.9612	.9612	.9612	.9763	.9763
Brighton Area Library		.9059	.9059	.9059	.9059	.9442	.9442
Total All Jurisdictions		<u>\$36.1952</u>	<u>\$54.1952</u>	<u>\$36.2273</u>	<u>\$54.2273</u>	<u>\$36.1068</u>	<u>\$54.1068</u>

* *Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

TAX RATE LIMITATIONS

The City Charter provides tax rate limitations as follows:

<u>Purpose</u>	Rate (per \$1,000 of State <u>Equalized Valuation</u>)	Maximum <u>Permitted Rate</u>
General Operating	\$20.00	\$15.4059

The City may levy taxes pursuant to state law for the following purposes:

<u>Purpose</u>	<u>Authority</u>	Rate (per \$1,000 of State <u>Equalized Valuation</u>)
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	\$3.00
Police & Fire Pension Requirements	Act 345, P.A. of Michigan 1937, as amended	Amount Required to Make Contribution

In addition, Article IX, Section 6, permits the levy of millage in excess of the above for:

1. All debt service on tax supported bond and bonds issued prior to December 23, 1978 or tax supported issues which have been approved by the voters for which the issuer has pledged its full faith and credit.
2. Operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

CONSTITUTIONAL MILLAGE ROLL-BACK

Article IX, Sec. 31 of the Michigan Constitution requires that if the total value of existing taxable property in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be permanently reduced through a Millage Reduction Factor unless reversed by a vote of the electorate of the local taxing unit.

OPERATING TAX LEVIES AND COLLECTIONS

<u>Year</u>	<u>Tax Levy</u>	<u>Collections to March 1 of Following Year</u>	
2005	5,753,387	In process of collection	
2004	5,277,864	5,169,842	97.95%
2003	4,893,281	4,795,497	98.00%
2002	4,619,589	4,526,776	97.99%
2001	4,576,851	4,491,724	98.14%
2000	4,227,910	4,161,412	98.43%
1999	3,959,807	3,899,747	98.48%
1998	3,619,636	3,562,291	98.42%
1997	3,329,055	3,207,890	96.36%
1996	3,183,852	2,994,744	94.06%

The City's taxes are due and payable and a lien created upon the assessed property on July 1, each year. Real Property taxes remaining unpaid on the following March 1st are turned over to the County Treasurer for collection. If all real property taxes are not paid within two years from the May 1 following their return to the County Treasurer, the property is sold for taxes.

Livingston County has established a Delinquent Tax Revolving Fund which pays all real property taxes returned delinquent to the County Treasurer as of March 1st of each year. If feasible, it is anticipated that the County will continue to reimburse the City for any uncollected taxes, but there is no assurance that this will be the case since the County is not obligated to continue this fund in future years. Uncollected personal property taxes are collected by the City Treasurer and are negligible.

INDUSTRIAL FACILITIES TAX

The Michigan Plant Rehabilitation and Industrial Development District Act (Act 198, Public Acts of Michigan, 1974, as amended) ("Act 198") provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Under the provision of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. For abatements granted prior to January 1, 1994, new plant and equipment is taxed at one-half the total mills levied by all taxing units, except for mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993.

For new facility abatements granted after 1993, new plant and equipment is taxed at one-half of the total mills levied as ad valorem taxes by all taxing units, except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act.

It must be emphasized, however, that ad valorem property taxes on land and inventory are not reduced in any way since both land and inventory are specifically excluded under Act 198. *The City has 9 IFT exemption certificates currently outstanding, aggregating \$14,956,550.*

DEBT STATEMENT

(As of June 30, 2005 including Bonds described herein)

DEBT:

General Obligation Bonds

06/01/96 Street UT	\$ 1,250,000	
02/27/97 Sewage Refunding	355,000	
10/01/97 Street UT	1,525,000	
05/01/02 Street Improve. LT	380,000	
07/01/03 Capital Improvement, L.T.	510,000	
11/01/04 Capital Improvement, L.T.	2,200,000	
06/01/05 Capital Improvement, L.T.	<u>3,000,000</u>	\$ 9,220,000

Authority Bonds

02/01/95 DDA	\$ 525,000	
08/01/96 Police & Vehicle Storage	950,000	
10/01/96 LDFA LT	220,000	
09/01/98 DDA	725,000	
05/01/02 LDFA	550,000	
11/01/02 DDA	<u>2,675,000</u>	\$ 5,645,000

Special Assessment Bonds

07/01/93 Utility Improvements	\$ 245,000	
10/01/94 Street Improvements	225,000	
05/01/02 Street Improve. LT	<u>3,200,000</u>	\$ 3,670,000

MTF Bonds

09/01/99	<u>270,000</u>	\$ 270,000
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Share of County Issued Bonds

Water		\$ 3,131,400
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Revenue Bonds (G.O.) Pledge

03/25/04 Water, L.T. MMBA	\$ 1,460,000	
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Revenue Bond

03/29/01WWTP	\$ 8,600,000	
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Installment Purchase Contracts

\$ 262,533

TOTAL DEBT

\$ 32,258,933

Less: Special Assessment Bonds

\$ 3,670,000

MTF Bonds

270,000

Revenue Bonds

\$ 8,600,000 \$ 12,540,000

NET DEBT

\$19,718,933

DEBT RATIOS:

Per Capita 2005 State Equalized Valuation	\$ 65,640
Per Capita 2005 True Cash Value	\$ 131,280
Per Capita 2005 Net Debt	\$ 2,727
Percent Net Debt of State Equalized Valuation	4.15%
Percent Net Debt of True Cash Value	2.08%

SCHEDULE OF BOND MATURITIES

(As of June 30, 2005 including Bonds described herein)

<u>Year</u>	<u>General Obligation Bonds</u>	<u>Authority Bonds</u>	<u>Special Assessment Bonds</u>	<u>MTF Bonds</u>	<u>Revenue Bonds</u>	Share of County Issued Bonds <u>Water/Sewer</u>
2005	355,000	365,000	235,000	25,000	315,000	287,200
2006	770,000	370,000	265,000	25,000	365,000	337,200
2007	440,000	420,000	265,000	25,000	415,000	332,200
2008	495,000	475,000	265,000	25,000	465,000	337,200
2009	620,000	505,000	210,000	30,000	520,000	337,200
2010	655,000	555,000	210,000	30,000	570,000	142,200
2011	680,000	605,000	210,000	35,000	570,000	172,200
2012	535,000	550,000	210,000	35,000	625,000	172,200
2013	285,000	605,000	200,000	40,000	625,000	177,200
2014	290,000	730,000	200,000	0	675,000	182,200
2015	320,000	155,000	200,000	0	680,000	187,200
2016	320,000	35,000	200,000	0	680,000	92,200
2017	330,000	35,000	200,000	0	780,000	75,000
2018	405,000	35,000	200,000	0	785,000	100,000
2019	355,000	35,000	200,000	0	835,000	100,000
2020	330,000	40,000	200,000	0	885,000	100,000
2021	360,000	40,000	200,000	0	90,000	0
2022	325,000	40,000	0	0	90,000	0
2023	350,000	50,000	0	0	90,000	0
2024	400,000	0	0	0	0	0
2025	425,000	0	0	0	0	0
2026	<u>175,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>\$ 9,220,000</u>	<u>\$ 5,645,000</u>	<u>\$ 3,670,000</u>	<u>\$ 270,000</u>	<u>\$ 10,060,000</u>	<u>\$ 3,131,400</u>

DEBT HISTORY: There is no record of default.

FUTURE BONDING: The City is planning to sell \$800,000 of Capital Improvement Bonds in FY 2005-06.

STATEMENT OF LEGAL DEBT MARGIN
(As of June 30, 2005 including Bonds described herein)

2005 State Equalized Valuation	\$ 474,639,350
Add: Assessed Value Equivalent of 2003 SEV of Act 198 Exemptions	<u>\$ 14,956,550</u>
Total Valuation	\$ 489,595,900
Debt Limit (10% of State Equalized Valuation)	\$ 48,959,590
Less: Amount of Outstanding Net Debt (Debt Statement)	<u>\$ 19,718,933</u>
LEGAL DEBT MARGIN	<u>\$29,240,657</u>



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October 27, 2005

To the Honorable Mayor and Members
of the City Council
City of Brighton
200 North First Street
Brighton, MI 48116

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements for the City of Brighton (the "City") for the year ended June 30, 2005. As a result of our audit, we offer the following observations and comments for your consideration:

GASB Statement No. 45

As communicated to you in our last letter, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

Your "valuation" will not be required to be performed by an actuary as the total participants for the City do not exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Although not required to be calculated by an actuary, the City may opt to have an actuary perform the valuation due to the work that would be required of your staff.

A member of



A worldwide association of independent accounting firms

This statement is being phased in over a three-year period, similar to GASB No. 34. For the City of Brighton, it is effective July 1, 2008. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the effective date.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Because of this, pre-funding the contribution could actually reduce your long-run cost.

State-shared Revenue

The governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the legislature to revenue sharing and then subsequently restored. The budget for fiscal year 2005/2006 is not done yet. While the expectation is that revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at fiscal year 2004/2005 levels, the legislature still must finalize its budget negotiations and the revenue-sharing act will require an amendment to accomplish distribution in this manner. By law, the legislature and the governor need to complete their work on the budget by September 30, 2005 and appropriations (such as revenue sharing, which is one very large line item in the State's budget) can change during that time.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments revenue sharing, and for fiscal years 2004/2005 and 2005/2006, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State-shared revenue accounts for approximately 8 percent of the City's total General Fund revenue.

General Accounting Issues

Unbillable Water

During our analytical review of the Water Fund, we noted that the City's unbillable water (i.e., the amount of water pumped into the mains but not sold to customers) continues to be approximately 25 percent of total water pumped. The City has taken great strides toward identifying and monitoring specific sources of the unbillable amount during the past fiscal year. Management has accounted for approximately 11 percent of the water pumped, which is unbillable during the year. The largest contributing factors in 2004 were fire hydrant flushing, water main breaks, and construction projects. Many of these factors are maintenance or construction in nature and are therefore expected in any water system of a growing community. There remains 14 percent, which is unbillable during the year, that management continues to try to identify. Management believes this remaining portion represents the actual water "lost" within the system during the year. We congratulate management for the significant progress they have made.

Wire Transfers

Management has also made progress this year on improving the internal controls over wire transfer activity. A formal wire transfer form and process has been implemented. We encourage management to continue to utilize this process and to be consistent in documenting approvals on the new form.

We would like to thank the City Council, management, and all personnel who assisted in the audit. The cooperation and assistance we received is greatly appreciated. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Chris S. Jones